

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Newaygo Area District Library	County Newaygo
Fiscal Year End December 31, 2006	Opinion Date June 28, 2007	Date Audit Report Submitted to State June 29, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Brickley DeLong, PLC		Telephone Number (231) 726-5800		
Street Address 316 Morris Avenue		City Muskegon	State MI	Zip 49443
Authorizing CPA Signature <i>Patrick L. Mutchler, CPA</i>		Printed Name PATRICK L. MUTCHLER		License Number 21100

for Brickley DeLong, PLC

Newaygo Area District Library
Newaygo, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

December 31, 2006

Newaygo Area District Library

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Newaygo Area District Library

Library Management's Discussion and Analysis

Brief Discussion of the Basic Financial Statements

This report consists of three parts – *management's discussion and analysis* (this section), *the basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These financial statements focus on current resources and provide a detailed view about the Library's sources and uses of funds.
- The "Adjustments" column of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method.
- The third column provides both long-term and short-term information about the Library's overall financial status. The "Statement of Net Assets" and the "Statement of Activities" provide information about the activities of the Library as a whole and present a longer term view of the Library's finances.

The financial statements also includes notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Condensed Financial Information

A. Statement of Net Assets

Current assets decreased by \$31,392 due primarily to several unexpected expenses over the course of the year including costs related to the closing of the Library's Croton branch location on March 31, 2006, an increase in unemployment expenses, and costs relating to planning for a new building. Capital assets decreased by \$10,761 due to the normal depreciation exceeding capital outlay. Funds invested in capital assets include the Library's collections of materials as well as its fixed assets, minus accumulated depreciation. These capital assets are not readily available for the payment of bills. Unrestricted net assets are not restricted and are available for operating expenditures.

Newaygo Area District Library

Library Management's Discussion and Analysis

Condensed Statement of Net Assets

	2006	2005
Current assets and other assets	\$ 169,760	\$ 201,152
Capital assets	121,498	132,259
Total assets	291,258	333,411
Current liabilities	24,954	42,733
Net assets		
Invested in capital assets	121,498	132,259
Unrestricted	144,806	158,419
Total net assets	\$ 266,304	\$ 290,678

Analysis and Discussion

- Current assets include cash, grant funding, and investments.
- Capital assets consist of the Library's collections of materials and furnishings, minus depreciation.
- Current liabilities primarily include revenue that was received from the Fremont Area Community Foundation, but unspent at the end of the year.

B. Statement of Activities

The table below shows key financial information under the full accrual method in a condensed format. Amounts and totals reported are for all Library activities, including general operations, improvements, and gift activity in order to give a complete picture.

Condensed Statement of Activities

	Year ended December 31, 2006	Four months ended December 31, 2005
General revenues		
Property taxes	\$ 8,216	\$ -
Intergovernmental revenue—state	7,417	-
Intergovernmental revenue—local	69,015	3,691
Fines and forfeitures	41,820	1,792
Investment earnings	6,432	574
Contributions	49,045	19,491
Other	209	83
Total revenues	182,154	25,631

Newaygo Area District Library

Library Management's Discussion and Analysis

	Year ended December 31, 2006	Four months ended December 31, 2005
Expenditures		
Salaries and wages	\$ 84,654	\$ 26,126
Fringe benefits	14,936	3,311
Operating supplies	16,252	1,032
Repairs and maintenance	3,779	388
Professional services	12,320	7,505
Utilities	4,673	1,502
Insurance	1,109	2,700
Dues and fees	250	425
Contracted services	34,474	5,448
Telephone	2,516	860
Other	1,175	433
Depreciation	30,390	10,748
Total expenses	<u>206,528</u>	<u>60,478</u>
Change in net assets	(24,374)	(34,847)
Net assets at beginning of year	<u>290,678</u>	<u>325,525</u>
Net assets at end of year	<u>\$ 266,304</u>	<u>\$ 290,678</u>

Analysis and Discussion

1. Revenues

- The 2006 figures are significantly higher when compared to 2005. Because the District Library was formed in September, 2005, the 2005 figures reflect a shortened, four month period, whereas the 2006 figures reflect a twelve month period.
- The primary sources of revenue for this period were state and local intergovernmental revenue, which accounted for 46% of the budget. Revenue from capital grants and contributions accounted for another 27% of the budget.
- Local intergovernmental revenues consist primarily of monies received from the local governmental entities included in the district agreement for library services.
- Grants and contributions included a number of grants from the Fremont Area Community Foundation and several minor contributions to the Library's endowment fund.
- Other revenues consisted of fines and forfeitures, investment earnings, and miscellaneous other items.

Newaygo Area District Library

Library Management's Discussion and Analysis

2. Expenditures

- The 2006 figures are significantly higher when compared to 2005. Because the District Library was formed in September, 2005, the 2005 figures reflect a shortened, four month period, whereas the 2006 figures reflect a twelve month period.
- Because of the service nature of libraries, salaries and fringe benefits are a significant expenditure for the Library, representing 48% of the Library's total expenditures.
- Professional and contracted services accounted for 23% of expenditures. This unusually high percentage was related to planning for a new building.
- Depreciation increased due to continued additions to the collection.

The Library's Fund

The analysis of the Library's major fund is included on pages 2 and 3. These pages show the General Fund, the Library's major operating fund. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages.

The fund balance of the General Fund decreased during the current year by \$10,930. This is due to unusually high professional and contracted services expenditures related to preparation for a building campaign. Some of these costs were offset by a grant to help with the planning of a new library building. Another factor was a change in leadership midway through this period and increased expenses related to administrative staffing.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to address unplanned needs and events that occurred during this time. The more significant adjustments are listed below.

A. Revenues

- State intergovernmental revenues were reduced to account for a decrease in state funding during this period. This decrease was due to a change in population affected by the closing of the Library's branch location on March 31, 2006.
- Fines and forfeitures were reduced to reflect the decrease in fines levied to the county and appropriated to the Library. This decrease was due to a change in population affected by the closing of the Library's branch location on March 31, 2006.
- Contributions were increased to reflect several grants awarded to the Library during this period.

Newaygo Area District Library

Library Management's Discussion and Analysis

B. Expenditures

- The budget for contracted services was significantly increased to account for expenses related to planning for a new library building.
- The budget for insurance was reduced to account for decreased coverage due to the closing of the Library's branch location on March 31, 2006.

C. Budget to Actual

- Actual revenues were 9% under budget.
- The final budget showed an 8% deficit due to several unexpected expenses over the course of the year including costs related to the closing of the Library's branch location on March 31, 2006, increased unemployment expenses, and costs relating to planning for a new building. Actual expenditures were 5% under budget, but still reflected a deficit overall.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$121,498 invested in furniture, equipment, books and materials, net of depreciation. The Library added \$19,629 in new collection items consisting of new books and various audio/visual materials.

Next Year's Anticipated Budget Factors and Currently Known Facts

- A. Budget – Expenditures related to salaries and fringe benefits are expected to increase as the director position was filled by a professional librarian. Professional and contracted services expenditures will continue to remain high due to plans for a new library building. The Library will continue to be dependent upon grant funding.
- B. Property Tax Millage – The Library will present a proposal for increased operational funding late in 2007. If the campaign is successful, revenues will significantly increase. The resulting extra revenue will be applied to the new building.

Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances for all those interested in the Library's finances. If you have any questions about this report or need additional information, contact the Newaygo Area District Library Director, 44 North State Road, Newaygo, MI 49337-8127.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

June 28, 2007

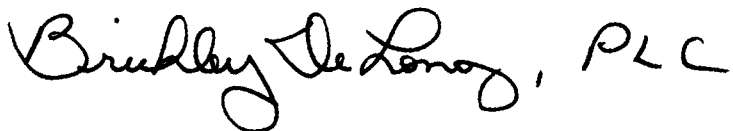
Board of Directors
Newaygo Area District Library
Newaygo, Michigan

We have audited the accompanying financial statements of the Newaygo Area District Library as of and for the year ended December 31, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Newaygo Area District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Newaygo Area District Library as of December 31, 2006 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - v and 11 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Newaygo Area District Library
BALANCE SHEET—STATEMENT OF NET ASSETS
December 31, 2006

	Balance Sheet - Modified accrual	Adjustments	Statement of Net Assets - Full accrual
ASSETS			
Cash and cash equivalents	\$ 166,983	\$ -	\$ 166,983
Grant receivable	2,777	-	2,777
Capital assets, net of depreciation			
Depreciable	-	121,498	121,498
Total assets	\$ 169,760	121,498	291,258
LIABILITIES			
Accounts payable	\$ 1,480	-	1,480
Accrued liabilities	4,373	-	4,373
Deferred revenue	21,597	(2,496)	19,101
Total liabilities	27,450	(2,496)	24,954
FUND BALANCE			
Unreserved	142,310	(142,310)	-
Total fund balance	142,310	(142,310)	-
Total liabilities and fund balance	\$ 169,760		
NET ASSETS			
Invested in capital assets		121,498	121,498
Unrestricted		144,806	144,806
Total net assets		\$ 266,304	\$ 266,304

The accompanying notes are an integral part of this statement.

Newaygo Area District Library
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE—STATEMENT OF ACTIVITIES**
 For the year ended December 31, 2006

	Revenues and Expenditures - Modified accrual	Adjustments	Statement of Activities - Full accrual
REVENUES			
Property taxes	\$ 8,216	\$ -	\$ 8,216
Intergovernmental revenue			
State	7,417	-	7,417
Local	69,015	-	69,015
Fines and forfeitures	41,820	-	41,820
Investment earnings	6,432	-	6,432
Contributions	51,728	(2,683)	49,045
Other	<u>209</u>	<u>-</u>	<u>209</u>
Total revenues	184,837	(2,683)	182,154
EXPENDITURES			
Current			
Salaries and wages	84,654	-	84,654
Fringe benefits	14,936	-	14,936
Operating supplies	16,252	-	16,252
Repairs and maintenance	3,779	-	3,779
Professional services	12,320	-	12,320
Utilities	4,673	-	4,673
Insurance	1,109	-	1,109
Dues and fees	250	-	250
Contracted services	34,474	-	34,474
Telephone	2,516	-	2,516
Other	1,175	-	1,175
Capital outlay	19,629	(19,629)	-
Depreciation	<u>-</u>	<u>30,390</u>	<u>30,390</u>
Total expenditures	195,767	10,761	206,528
Change in fund balance—net assets	(10,930)	(13,444)	(24,374)
Fund balance—net assets at January 1, 2006	<u>153,240</u>	<u>137,438</u>	<u>290,678</u>
Fund balance—net assets at December 31, 2006	<u>\$ 142,310</u>	<u>\$ 123,994</u>	<u>\$ 266,304</u>

The accompanying notes are an integral part of this statement.

Newaygo Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Newaygo Area District Library (Library) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are listed below.

Reporting Entity

The Library was established in September 2005 by a district library agreement between the City of Newaygo, Brooks Township and Garfield Township pursuant to the District Library Establishment Act. The boundaries include most of the participating municipality boundaries except those already covered by another district library. The Library is governed by a seven member Library Board. Each participating municipality appoints two members and the seventh member is appointed by one of the municipalities on a rotating basis. The Library is administered by a director appointed by the Board. As part of this agreement, all assets of the Newaygo Carnegie Library, a component unit of the City of Newaygo, were contributed to the Library.

The Library is currently funded primarily by contribution from the establishing municipalities, fines, fees and state aid. The Library has until December 31, 2008 to pass a millage with not less than 1.6 mills of funding. If the Library is unable to pass a millage by the above date all net assets of the Library transfer back to the City of Newaygo.

Generally accepted accounting principles require that if the Library has certain oversight responsibilities over other organizations, those organizations should be included in the Library's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Since the Library only has one fund, no separate columns have been provided.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Newaygo Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Fund Equity or Net Assets

Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Library reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed and the Library intends to hold the investment until maturity.

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The prepaid items recorded in the governmental fund types do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reserved.

Capital Assets

Capital assets, which include library books, periodicals, etc. and equipment are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year with exception of library books, periodicals, etc. which are all recorded as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Library books and equipment of the Library are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Library books, periodicals, etc.	5-10
Furniture and equipment	5

Newaygo Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Compensated Absences

The Library's employees are granted vacation and sick leave in varying amounts based upon length of service and position. Unused vacation and sick leave does not accumulate from year to year.

Fund Balance and Net Assets

Reservations and restrictions represent amounts that are not appropriable or are legally segregated for a specific purpose.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets, as required by state statutes, are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the year, the Library Director submits to the Library Board a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Not later than December 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.

The appropriated budget is prepared by individual revenue and expenditure line item. The legal level of budgetary control is the individual line item. The Library Board made several supplemental budgetary appropriations throughout the year.

Excess Expenditures Over Appropriations

During the year ended December 31, 2006, actual expenditures exceeded appropriations for fringe benefits by \$7,086.

Newaygo Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issues by nationally recognized statistical rating organizations (NRSROs). The Library has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Library does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. The Library does not have a custodial credit risk policy for deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of December 31, 2006, \$67,991 of the Library's bank balance of \$167,991 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Library does not have a custodial credit risk policy for investments. In an investment, this is the risk that in the event of the failure of the counterparty, the Library's will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Library is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
Capital assets, being depreciated:				
Library books, periodicals, etc.	\$ 710,784	\$ 19,629	\$ 5,016	\$ 725,397
Furniture and equipment	64,407	-	-	64,407
Total capital assets, being depreciated	775,191	19,629	5,016	789,804
Less accumulated depreciation:				
Library books, periodicals, etc.	578,525	30,390	5,016	603,899
Furniture and equipment	64,407	-	-	64,407
Total accumulated depreciation	642,932	30,390	5,016	668,306
Capital assets, net	\$ <u>132,259</u>	\$ <u>(10,761)</u>	\$ <u>-</u>	\$ <u>121,498</u>

Newaygo Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

NOTE E—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

Unearned	\$ 19,101
Unavailable	<u>2,496</u>
Total deferred revenue for governmental funds	<u><u>\$ 21,597</u></u>

NOTE F—COMMITMENTS

Facility Lease

The Library entered into a five year and four month lease agreement for the Library's operating facilities that expires December 31, 2010. The lease requires annual rentals of \$1 and payment of all occupancy expenses.

NOTE G—OTHER INFORMATION

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Library carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

**NOTE H—RECONCILIATION OF GENERAL FUND FINANCIAL STATEMENTS TO
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Total fund balance—governmental funds	\$ 142,310
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Other receivables in governmental activities not reported in the governmental funds.	2,496
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental fund.	
Cost of capital assets	\$ 789,804
Accumulated depreciation	<u>(668,306)</u> <u>121,498</u>
Net assets of governmental activities in the Statement of Net Assets	<u><u>\$ 266,304</u></u>

Newaygo Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2006

**NOTE H—RECONCILIATION OF GENERAL FUND FINANCIAL STATEMENTS TO
GOVERNMENT-WIDE FINANCIAL STATEMENTS—Continued**

Net change in fund balances - total governmental funds \$ (10,930)

Amounts reported for government activities in the Statement of Activities
are different because:

Revenue reported in the Statement of Activities that does not provide
current financial resources are not reported as revenue in the
governmental funds. (2,683)

Governmental funds report outlays for capital assets as expenditures;
in the Statement of Activities, these costs are depreciated over
their estimated useful lives.

Depreciation expense	\$ (30,390)		
Capital outlay	<u>19,629</u>	<u>(10,761)</u>	
Change in net assets in governmental activities		<u><u>\$ (24,374)</u></u>	

REQUIRED SUPPLEMENTARY INFORMATION

Newaygo Area District Library
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
For the year ended December 31, 2006

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues				
Property taxes	\$ 8,216	\$ 8,216	\$ 8,216	\$ -
Intergovernmental revenues				
State	13,300	7,417	7,417	-
Local	70,530	68,768	69,015	247
Fines and forfeitures	54,500	41,761	41,820	59
Investment earnings	1,000	5,525	6,432	907
Contributions	40,750	63,700	51,728	(11,972)
Other	2,600	313	209	(104)
Total revenues	190,896	195,700	184,837	(10,863)
Expenditures				
Current				
Salaries and wages	94,600	93,600	84,654	8,946
Fringe benefits	8,200	7,850	14,936	(7,086)
Operating supplies	9,115	17,300	16,252	1,048
Repairs and maintenance	3,717	3,700	3,779	(79)
Professional services	13,750	11,700	12,320	(620)
Utilities	6,000	5,000	4,673	327
Insurance	5,000	2,800	1,109	1,691
Dues and fees	1,700	300	250	50
Contracted services	20,590	38,200	34,474	3,726
Telephone	3,600	3,000	2,516	484
Other	1,624	1,950	1,175	775
Capital outlay	23,000	25,900	19,629	6,271
Total expenditures	190,896	211,300	195,767	15,533
Net change in fund balance	\$ -	\$ (15,600)	(10,930)	\$ 4,670
Fund balance at January 1, 2006			153,240	
Fund balance at December 31, 2006			\$ 142,310	

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

June 28, 2007

Library Board
Newaygo Area District Library
Newaygo, Michigan

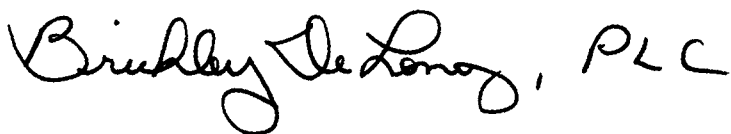
In planning and performing our audit of the governmental activities, and the major fund of Newaygo Area District Library as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Newaygo Area District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Newaygo Area District Library's internal control. Accordingly, we do not express an opinion on the effectiveness of Newaygo Area District Library's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified and we have attached a deficiency in internal control that we consider to be a significant deficiency.

This communication is intended solely for the information and use of management, the Library Board, others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Organization should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles

Recommendation 2: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The Library should continue using its current accounting system, but seek opportunities to further segregate duties and strengthen internal controls. Often, the most effective approach is the expansion of documented approval of transactions and reconciliations by the Library Board.

Recommendation 3: Procedures should be developed for recording collections additions during the year including additions, disposals and donations received.

During our testing, we noted additions per the Library accounting records did not agree to the Lakeland Library Cooperatives collections listing. In addition, it appears there are limited procedures to ensure that books are properly recorded.

We would recommend that the Library review its fixed asset procedures related to collection. We would recommend that during the review process the procedures be designed to fully utilize resources available on the Lakeland Library Cooperative inventory system.